

**CITY OF DETROIT
TRANSPORTATION FUND**

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KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Honorable Mayor Kwame M. Kilpatrick
and Members of the City Council
City of Detroit, Michigan:

We have audited the accompanying basic financial statements of the Transportation Fund (the Fund) (an Enterprise fund) of the city of Detroit, Michigan (the City) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of the Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements referred to above present only the Transportation Fund of the city of Detroit, Michigan and are not intended to present fairly the financial position of the City as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Fund of the city of Detroit, Michigan as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Fund has not presented management's discussion and analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.



The schedule of funding progress on page 18 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 19 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 9, 2006

**CITY OF DETROIT
TRANSPORTATION FUND**

Statement of Net Assets

June 30, 2005

Assets:

Current assets:

Cash and cash equivalents	\$ 113,569
Short-term investments	4,742,114
Accounts receivable, less allowance for doubtful accounts of \$383,531	618,099
Due from the General Fund of the city of Detroit	734,423
Due from other governmental agencies	7,297,850
Inventories, net of obsolescence allowance	<u>6,920,401</u>
Total current assets	<u>20,426,456</u>

Noncurrent assets:

Restricted cash and cash equivalents	11,261,008
Advance to the city of Detroit long-term disability reserve fund	650,000
Net pension asset	98,005,506
Issuance costs—Pension Obligation Certificates of Participation	3,372,800
Capital assets, net	<u>152,798,236</u>
Total noncurrent assets	<u>266,087,550</u>
Total assets	<u>286,514,006</u>

Liabilities and net assets:

Current liabilities:

Accounts payable and contracts payable	10,323,683
Capital leases payable	2,577,808
Accrued interest payable	743,151
Due to General Fund	17,914,255
Due to other funds of the city of Detroit	3,482,538
Due to the Detroit Transportation Corporation	1,764,760
Accrued salaries and wages	2,601,179
Accrued compensated absences	3,039,331
Long-term disability	992,272
Deferred revenue	<u>117,630</u>
Total current liabilities	<u>43,556,607</u>

Long-term liabilities:

Escrow payable	11,037,009
Capital leases payable	29,533,118
Pension Obligation Certificates of Participation	103,083,553
Accrued compensated absences	759,833
Long-term disability	<u>3,969,088</u>
Total long-term liabilities	<u>148,382,601</u>
Total liabilities	<u>191,939,208</u>

Net assets:

Invested in capital assets, net of related debt	120,687,310
Unrestricted deficit	<u>(26,112,512)</u>
Total net assets	<u>\$ 94,574,798</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
TRANSPORTATION FUND**

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2005

Operating revenues:	
Revenues from transit operation	\$ 22,959,490
Operating expenses before depreciation expense:	
Salaries and wages	65,911,361
Pension and fringe benefits	55,447,840
City of Detroit central staff services	12,326,776
Contractual services	13,719,310
Materials and supplies	18,123,544
Utilities	2,890,873
Claims and insurance	14,285,617
Expenditures applicable to restricted grants	3,226,017
Miscellaneous expense	2,231,276
Depreciation expense	16,919,222
Total operating expenses	<u>205,081,836</u>
Total operating loss	<u>(182,122,346)</u>
Nonoperating revenues (expenses):	
Federal and state operating assistance	72,670,780
Restricted federal and state grants	3,226,017
Interest expense, net	(589,887)
Investment income	296,527
Total nonoperating revenues, net	<u>75,603,437</u>
Net loss before capital contributions and transfers	<u>(106,518,909)</u>
Capital contributions	7,120,491
Transfer from city of Detroit General Fund	77,441,898
Total transfer and capital contributions	<u>84,562,389</u>
Decrease in net assets	<u>(21,956,520)</u>
Net assets, beginning of the year	<u>116,531,318</u>
Net assets, end of the year	<u>\$ 94,574,798</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
TRANSPORTATION FUND**

Statement of Cash Flows

Year ended June 30, 2005

Cash flows from operating activities:	
Receipt from customers and users	\$ 22,665,516
Payments to suppliers for goods and services	(9,172,961)
Payments for injuries and damages	(14,285,617)
Payments to employees	(221,025,500)
Net cash used in operating activities	<u>(221,818,562)</u>
Cash flows from noncapital and related financing activities:	
Proceeds from issuance of Pension Obligation Certificates of Participation	103,083,533
Issuance costs—Pension Obligation Certificates of Participation	(3,372,800)
Federal and state contributions received	75,896,797
Operating transfer from city of Detroit	76,943,880
Net cash provided by noncapital and related financing activities	<u>252,551,410</u>
Cash flows from capital and related financing activities:	
Federal, state, and local capital grants received	20,308,094
Acquisition and construction of capital assets	(39,231,417)
Net cash used in capital and related financing activities	<u>(18,923,323)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	103,221,800
Purchase of investments	(106,320,328)
Interest and dividends received	296,527
Net cash used in investing activities	<u>(2,802,001)</u>
Increase in cash and cash equivalents	9,007,524
Cash and cash equivalents, beginning of year	<u>2,367,033</u>
Cash and cash equivalents, end of year	<u>\$ 11,374,557</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (182,122,346)
Depreciation expense	16,919,222
Allowance for doubtful accounts	339,241
Change in assets and liabilities:	
Decrease in accounts receivable	(293,974)
Increase in net pension assets	(98,005,506)
Decrease in inventories	2,977,217
Decrease in amounts payable and contracts payable	(4,155,308)
Increase in escrow payable	11,037,008
Increase in capital leases payable	32,110,926
Increase in accrued interest payable	153,264
Increase in due to General Fund	4,390,836
Decrease in due to other funds of the city of Detroit	(1,182,852)
Decrease in due to fiduciary funds	(1,528,678)
Decrease in due to the Detroit Transportation Corporation	(3,762,064)
Decrease in accrued salaries and wages	(177,813)
Increase in accrued compensated absences	69,004
Increase in long-term disability	1,413,261
Net cash used in operating activities	<u>\$ (221,818,562)</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(1) Description of Operations and the Entity

The Transportation Fund (the Fund) of the city of Detroit (the City) is an Enterprise fund of the City and is included within the reporting entity of the City's Comprehensive Annual Financial Report. The Fund accounts for the operations of public transportation facilities within the City and is operated by the City's Department of Transportation (DDOT). These financial statements represent the financial condition and the results of operations of only the Transportation Fund of the City.

Pursuant to the provisions of legislation enacted in 1988, which amended Act No. 204, a corporation known as the Regional Transit Coordinating Council (RTCC) is the designated recipient of operating assistance funds from the state of Michigan and the Federal Transit Administration (FTA). The Suburban Mobility Authority for Regional Transportation (SMART) and DDOT are subrecipients of such operating assistance funds. The Articles of Incorporation of RTCC provide that 35% of any state or federal transportation operating assistance or formula capital grants or loans is to be distributed to SMART, and the remaining 65% is to be distributed to DDOT. FTA and the state of Michigan pay such funds directly to SMART and DDOT at the direction of the RTCC. Capital grants or loans—which are not allocated on a formula basis by the responsible federal or state agencies but, rather, are allocated on a specific project or asset basis—are allocated to SMART and DDOT based on the terms of the grant or loan.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Fund, which are organized as an Enterprise fund, are used to account for the Fund's activities, which are financed and operated in a manner similar to a private business enterprise. Accordingly, the Fund maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Fund applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Fund also has the option of following FASB guidance issued after November 30, 1989, but has elected not to do so.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of 90 days or less from the date of acquisition.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(c) Investments

Investments are reported at fair value based on quoted market price.

(d) Inventories

Inventories consist of operating and maintenance and repair parts for buses and are valued at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis. Inventories are reported net of obsolescence allowances. During the year ended June 30, 2005, the Fund did not have any unusual losses or write-downs to market in its inventory balances. The Fund determined that \$1.1 million of inventory was obsolete during the year ended June 30, 2005, and reserved for this inventory in full. In addition, the Fund sold \$1.7 million of obsolete inventory during the year ended June 30, 2005.

(e) Capital Assets

Capital assets are defined by the Fund as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of a year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Improvements that extend the useful lives of the assets are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's life are not capitalized.

Depreciation is computed using the straight-line method, based upon the estimated useful lives of the related assets, as follows:

Buildings and structures	30 – 50 years
Vehicles and buses	3 – 12 years
Machinery, equipment, and fixtures	3 – 10 years

(f) Issuance Cost—Pension Obligation Certificates of Participation

Issuance costs are deferred and amortized over the life of the pension obligation certificates of participation using the straight-line method.

(g) Claims Expense

Claims expense is accrued in the period that incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administrators, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

(h) Compensated Absences

The liability consists of unpaid, accumulated vacation and sick leave balances. Unused vacation pay accumulates for each employee up to a maximum level. Once this level is attained, unused vacation must be used, or else the employee loses a portion of the vacation pay. There is no vesting of sick pay until an employee reaches the age of retirement.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(i) Capital Acquisition Grant Activities

Federal and state capital acquisition grants fund the purchase of capital items, including buses, bus terminals, and related transportation equipment used by the Fund. Capital grants for the acquisition of property and equipment are recorded as due from other governmental agencies and revenue when the related qualified expenditures are incurred.

(j) Revenue Recognition

Passenger fares are recorded as revenue at the time tickets and passes sold are used. Cash received for tickets and passes sold but not yet used is not recognized as revenue, but is treated as deferred revenue. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided on a reimbursement basis.

(k) Net Assets

Net assets are categorized as follows:

Invested in capital assets: This consists of capital assets, net of accumulated depreciation and related debt.

Restricted: This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, and then unrestricted resources when they are needed. The Fund has no restricted net assets.

Unrestricted: This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

(l) Classification of Revenues

The Fund has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as revenues from transit operations.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, which are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as federal and state contributions and investment income.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) New Accounting Pronouncements

The City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*, for the year ended June 30, 2005. This pronouncement requires additional disclosures presented in these notes, but has no impact on fund balance or net assets. These disclosures address common deposit and investment risks related to credit risk, concentration of credit risk, interest risk, and foreign currency risk.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. The City will implement Statement No. 42 beginning with the year ended June 30, 2006. The City is currently evaluating the impact of adopting Statement No. 42.

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. The City will implement Statement No. 45 beginning with the year ended June 30, 2008. The City is currently evaluating the impact of adopting Statement No. 45.

(3) State of Michigan Operating Assistance Funds

Under Act 51 of the Public Acts of 1951, as amended, the state of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. RTCC is the designated recipient of such funds, and the Fund is a subrecipient of RTCC. The Fund has recorded operating grant revenues under Act 51 based on a formula that takes into account the eligible costs incurred by the Fund, estimates of eligible costs incurred by DDOT, locally generated revenues of DDOT and the Fund, the percentage of RTCC's funding that is allocable to the Fund, and preliminary information made available by the Michigan Department of Transportation (MDOT) as to the amount of funds expected to be available to the RTCC.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(4) Deposits and Investments

State laws authorize the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by state law.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned by the bank. The City does not have a deposit policy for custodial credit risk. At June 30, 2005, the book value of the Fund's deposits was \$11,374,577 with a corresponding bank balance of \$11,284,547. Of the bank balance at June 30, 2005, \$123,540 is insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$11,161,007 is exposed to custodial credit risk, as it is uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As of June 30, 2005, the Fund had no investments subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City is generally not permitted to directly invest in securities maturing more than 10 years from original date of purchase.

As of June 30, 2005, the Funds' investments are with a money market fund that has a maturity of less than one year.

Credit Risk

The City's investment policy complies with state law which limits its investments in commercial paper, mutual funds and external investment pools which purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs).

As of June 30, 2005, the Fund's investments are with a Government Investment Pool with a fair market value of \$4,742,114, which was not rated.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(5) Due from Other Governmental Agencies

Due from other governmental agencies is comprised of the following as of June 30, 2005:

Federal government grants	\$ 5,420,744
State of Michigan grants	1,821,858
Other	<u>55,248</u>
Total	<u><u>7,297,850</u></u>

(6) Capital Assets

Capital asset activity for the year ended June 30, 2005 is as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 4,114,574	—	—	4,114,574
Construction in progress	<u>4,699,876</u>	<u>3,892,509</u>	<u>(3,541,603)</u>	<u>5,050,782</u>
Total capital assets not being depreciated	<u>8,814,450</u>	<u>3,892,509</u>	<u>(3,541,603)</u>	<u>9,165,356</u>
Capital assets being depreciated:				
Buildings and structures	65,498,463	4,411,792	—	69,910,255
Machinery, equipment, and fixtures	48,489,640	2,240,984	—	50,730,624
Vehicles and buses	<u>148,970,549</u>	<u>32,227,735</u>	<u>(14,361,222)</u>	<u>166,837,062</u>
Total capital assets being depreciated	<u>262,958,652</u>	<u>38,880,511</u>	<u>(14,361,222)</u>	<u>287,477,941</u>
Less accumulated depreciation and amortization:				
Buildings and structures	45,764,174	1,377,739	—	47,141,913
Machinery, equipment, and fixtures	28,840,860	3,412,179	—	32,253,039
Vehicles and buses	<u>66,682,027</u>	<u>12,129,304</u>	<u>(14,361,222)</u>	<u>64,450,109</u>
Total accumulated depreciation	<u>141,287,061</u>	<u>16,919,222</u>	<u>(14,361,222)</u>	<u>143,845,061</u>
Total capital assets being depreciated, net	<u>121,671,591</u>	<u>21,961,289</u>	—	<u>143,632,880</u>
Total capital assets, net	<u><u>\$ 130,486,041</u></u>	<u><u>25,853,798</u></u>	<u><u>(3,541,603)</u></u>	<u><u>152,798,236</u></u>

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(7) Risk Management

The Fund is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Fund is insured for workers' compensation, certain health benefits, and other claims, litigation, and assessments through the City's risk management activities. The City currently reports the risk management activities of the Transportation Fund in its General Fund. The Transportation Fund pays insurance premiums to the General Fund based on past claims activities. Insurance premiums paid by the Transportation Fund to the General Fund of the City for the year ended June 30, 2005 totaled \$13.8 million and are included in the statement of revenues, expenses, and changes in fund net assets as claims and insurance expense.

At June 30, 2005, the amount of the workers' compensation, legal claims and judgments, and disability benefits liabilities was estimated at \$181.2 million for the City. The City has recognized a liability that approximated \$7.0 million in the General Fund as of June 30, 2005 for public liability and workers' compensation claims that were due as of year-end. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements. This liability is the City's best estimate based on available information. Changes in the reported liability for the years ended June 30, 2005 and 2004 were as follows:

	June 30	
	2005	2004
	(In millions)	
Balance at beginning of year	\$ 187.3	178.8
Current-year claims and changes in estimates	60.8	117.7
Claim payments	(66.9)	(109.2)
Balance at end of year	<u>\$ 181.2</u>	<u>187.3</u>

Separate analysis of such liabilities is not available for the Transportation Fund. The amount of claims paid by the General Fund on behalf of the Transportation Fund approximated \$13.4 million for the year ended June 30, 2005. Claims, expenditures, and liabilities are reported in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (as amended), when it is probable that an asset has been impaired or a liability has been incurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

In addition, the Fund is insured for general property liability and vehicle insurance through commercial insurance coverage. Insurance premiums paid for such coverage amounted to \$485,617 for the year ended June 30, 2005. The Fund carries a \$100,000 deductible per incident for general property liability and vehicle insurance.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2005

(8) Employee Benefit Plan

Substantially all City employees, including the Transportation Fund employees, are covered by a single-employer plan composed of a defined benefit with an optional employee-contributed annuity through the General Retirement System (GRS). The GRS pay a monthly pension to qualified individuals upon retirement. The amount is based upon a combination of years of service and annual salary.

Plan Description

The GRS is administered in accordance with the City of Detroit Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to the Retirement System's board of trustees. The GRS issues separate, stand-alone financial statements annually. Copies of these financial statements can be obtained at the Coleman A. Young Municipal Center, 2 Woodward Ave., Rm. 908, Detroit, Michigan, 48226.

Funding Policy

The GRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The contribution requirements are established and may be amended by the GRS board of trustees based on information provided by the GRS's consulting actuary. The City's contribution is set by the City Council in conjunction with its approval of the City's annual budget based on information provided by the GRS's consulting actuary.

The recommended contribution rate is determined by the GRS's consulting actuary using the entry-age-normal actuarial cost funding method. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the actuarial accrued liability.

Based upon the June 30, 2003 actuarial valuation, which was the most recent actuarial data available when the budget was developed for the year ended June 30, 2005, the actuary recommended a Transportation Fund contribution rate of 23.59%. Contributions for the Transportation Fund totaled \$113,998,169, which included \$99,710,753 from proceeds of the issuance of the pension obligation certificates of participation (see note 13).

Employees may elect to contribute 3%, 5%, or 7% of the first \$87,900 of annual compensation and 5% or 7% of any excess over \$87,900 for annuity savings. Contributions are voluntary for all union and non-union employees. Contributions received from Transportation Fund employees during the year ended June 30, 2005 amounted to \$3,894,692.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

Administrative Expenses

Actuarial investment management and bank trustee fees and expenses are included in the GRS plan's administrative expenses when incurred. In addition, the GRS plan's administrative salary, rent, accounting services, duplicating, telecommunications, and travel expenses are included in the GRS plan's administrative expenses when incurred.

Schedule of Employer Contributions

	<u>Fiscal year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension asset</u>
General Retirement System	June 30, 2003	\$ 11,055,131	100%	\$ —
	June 30, 2004	15,045,655	100	—
	June 30, 2005	15,922,663	100	98,005,506

The annual pension cost and net pension asset as of June 30, 2005 are as follows:

Annual required contributions	\$ 15,992,663
Interest on net pension asset	—
Adjustment to annual required contribution	—
Annual pension cost	15,992,663
Contributions made (employer)	113,998,169
Changes in net pension asset	98,005,506
Net pension asset, beginning of year	—
Net pension asset, end of year	<u><u>\$ 98,005,506</u></u>

The actuarial methods and significant assumptions used to determine the annual required contributions for June 30, 2005 were as follows:

Valuation date	June 30, 2003
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases*	4% – 9.5%
Cost-of-living adjustments*	2.25%

*Includes inflation rate of 4%

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(9) Other Postretirement Benefits

In addition to the pension benefits described above, the City provides postretirement benefits to its retirees, including retired employees of the Fund. These benefits include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2005 is 22,451. Separate analysis of such liabilities is not available for the Fund. Costs for the City are accounted for in accordance with GASB Statement No. 12, *Disclosures of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the city charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis by the City, for the year ended June 30, 2005 are as follows:

Benefit	City cost	Retiree cost	Total cost
Hospitalization	\$ 137,864,782	13,960,235	151,825,017
Dental	5,547,455	—	5,547,455
Eye care	2,134,951	—	2,134,951
Life insurance	167,444	—	167,444
Total	<u>\$ 145,714,632</u>	<u>13,960,235</u>	<u>159,674,867</u>

(10) Interfund Transfers

The City transfers funds from the General Fund to the Transportation Fund to provide assistance. The amount of such operating assistance for the year ended June 30, 2005 was \$77,441,898 and is included in the statement of revenues, expenses, and changes in fund net assets. Certain expenses of the Fund, such as fringe benefits, utilities, and legal fees, which are originally incurred by other City funds, are charged to the Fund as interfund transactions.

(11) Contingencies

The Fund participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs prior to and/or including the year ended June 30, 2005 have not yet been conducted and/or completed. Accordingly, the Fund's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the Fund expects such amounts, if any, will not be material to the financial statements.

During the next fiscal year, the Fund will receive 19 leased buses; these buses will be the last of 121 buses that the Fund agreed to lease during the year ended June 30, 2005. The Fund is in the early stages of facility improvement renovations at one of its terminal/garage facilities (Shoemaker, and it will soon start a new construction at the Rosa Parks Transit Center. The Fund has federal and state capital grants that will fund these two projects.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

(12) Capital Lease

During the year ended June 30, 2005, the Fund entered into a capital lease agreement with GE Capital Public Finance, Inc. to lease 121 buses and received 102 of the 121 buses. The book value of the 102 buses under capital lease was \$31,005,862 as of June 30, 2005. The annual interest rate of the lease is 4.12% for 19 buses and 4.22% for 83 buses. The capital lease has been recorded at the present value of the future minimum lease payments as of the date of their inception. The present value of future minimum capital lease payments, interest, and the minimum annual lease payment for the 102 buses received as of June 30, 2005 are as follows:

Year	Present value Lease payments		Minimum lease payment
	Principal	Interest	
2006	\$ 2,577,808	1,399,589	3,977,397
2007	2,767,286	1,210,111	3,977,397
2008	2,884,579	1,092,818	3,977,397
2009	3,006,843	970,554	3,977,397
2010	3,134,290	843,107	3,977,397
2011 – 2015	17,740,120	2,106,936	19,847,056
	<u>\$ 32,110,926</u>	<u>7,623,115</u>	<u>39,734,041</u>

The actual purchase price of the 102 buses, leased by the fund is \$31,438,223, a total of \$672,703 less than above lease amount. The City's finance department will amend the lease agreement and return the \$672,703 plus interest, to the lessor, which is recorded as a liability.

The Fund is required to hold restricted cash \$11.3 million, equal to the lease proceeds not spent on the buses as of June 30, 2005.

(13) Pension Obligation Certificates of Participation

On June 2, 2005, the Detroit Retirement Systems Funding Trust (the Trust) issued \$1.44 billion (\$640 million of taxable fixed-rate Series A and \$800 million of taxable floating-rate Series B) of taxable Pension Obligation Certificates of Participation (POCs). The Trust was created by the Detroit General Retirement System Service Corporation (DGRSSC) and the Detroit Police and Fire Retirement System Service Corporation (DPFRSSC), both blended component units of the City. The City entered into service contracts with the DGRSSC and the DPFRSSC to facilitate the transaction. The POCs represent undivided proportionate interests in the rights to receive the payments from the City under its service contracts with the DGRSSC and the DPFRSSC.

**CITY OF DETROIT
TRANSPORTATION FUND**

Notes to Basic Financial Statements

June 30, 2005

The POCs were issued for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the two retirement systems of the City which include the General Retirement System (GRS) and the Police & Fire Retirement System (PFRS). The UAAL is a liability of the City for past services rendered by its employees in which Michigan state law and the Michigan Constitution require that a portion be annually paid. The GRS includes employees and retirees of certain proprietary funds, including the Department of Transportation.

A total of \$103,083,553 of the \$1,440,000,000 POCs issued is attributable and allocated to the Department of Transportation. \$3,372,800 relates to issuance costs that are recorded as an asset and will be amortized over 20 years, the life of the POCs. \$99,710,753 of the proceeds were contributed to the GRS, which included \$1,705,247 of annual required contributions for June 30, 2005. The remaining amount of \$98,005,506 resulted in a net pension asset.

Interest payments for Series A will commence on December 15, 2005 and are due semi-annually while the first principal payment is payable June 15, 2007, due annually, and are payable through 2025. Interest payments for Series B will commence on September 15, 2005, and are due quarterly through 2025 while the first principal payment is payable June 15, 2007, due annually, and are payable through 2025. The interest rates on the outstanding obligations range from 4.004% and 4.948%.

The redemption dates and aggregate principal and interest amounts for each such redemption date are as follows:

	<u>Principal amounts</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ —	3,573,619	3,573,619
2007	2,117,344	5,065,005	7,182,349
2008	2,592,102	4,971,778	7,563,880
2009	3,123,820	4,856,421	7,980,241
2010	3,690,967	4,716,588	8,407,555
2011 – 2015	28,697,386	20,469,900	49,167,286
2016 – 2020	35,611,038	11,875,247	47,486,285
2021 – 2025	27,250,896	4,648,617	31,899,513
Total	\$ <u>103,083,553</u>	<u>60,177,175</u>	<u>163,260,728</u>

The changes in the Pension Obligation Certificates of Participations for the year ended June 30, 2005, were as follows:

	<u>Balance July 1, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2005</u>
Pension Obligation Certificates of Participation	\$ —	103,083,553	—	103,083,553

REQUIRED SUPPLEMENTARY SCHEDULES

**CITY OF DETROIT
TRANSPORTATION FUND**

Required Supplementary Information (Unaudited)

June 30, 2005

Schedule of Funding Progress (in thousands) for the General Retirement System (unaudited):

<u>Actuarial valuation date, June 30</u>		<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Funded ratio</u>		<u>Unfunded AAL (UAAL)</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of payroll</u>
2001	\$	362,901	414,421	87.57%	\$	51,520	54,400	94.71%
2002		347,597	425,564	81.68		77,967	52,300	149.08
2003		329,838	428,297	77.01		98,459	53,400	184.38

SUPPLEMENTAL SCHEDULES

**CITY OF DETROIT
TRANSPORTATION FUND**

Revenue Schedule

Year ended June 30, 2005

Code	Description	Amount	Comments
40100	Passenger fares	\$ 21,818,953	
40615	Advertising	916,529	
40760	Gains from the sale of capital assets	197,070	
40799	Other nontransportation revenue	26,938	Miscellaneous revenue
40910	Local operating assistance	77,367,022	
40999	Other local contracts and reimb.	74,875	SEMCOG FY 04 MI-80-X012 (20% City Share)
41101	State operating assistance	54,342,717	
41110	Line-item municipal credit	882,222	Municipal credits
41111	Preventive maint. (20% share)	2,240,000	MI-90-X-434/MDOT 02-0033/Z16 (20% State Share)
41113	Capital contract reimb. for admin. expenses	7,797	MI-90-X-347/MDOT 2001-0324 (20% State Share)
		16,118	MI-90-X-359/MDOT (20% State Share)
		30	MI-90-X-374/MDOT 02-297 (20% State Share)
		142,153	MI-90-X-383/MDOT 02-0033/Z6 (20% State Share)
		8,363	MI-03-0180/MDOT 02-0033/Z5 (20% State Share)
		20,844	MI-90-X-411/MDOT 02-0033/Z7 (20% State Share)
		117,977	MI-90-X-412/MDOT 02-0033/Z14 (20% State Share)
		115,150	MI-90-X-434/MDOT 02-0033Z16 TRANSIT COPS (20% State Share)
		428,432	
41311	Preventive maint. (80% Federal Share)	8,960,000	MI-90-X-434/MDOT 02-0033/Z16 (80% Federal Share)
		2,412,981	MI-90-X-464/02-0033/Z16 (100% Federal)
		11,372,981	
41313	Capital contract reimb. for admin. expenses	31,187	MI-90-X-347/MDOT 01-0324 (80% Fed Share)
		64,470	MI-90-X-359/MDOT 01-0727 (80% Fed Share)
		120	MI-90-X-374/MDOT 02-297 (80% Fed Share)
		568,611	MI-90-X-383/MDOT 02-0033/Z6 (80% Fed Share)
		33,451	MI-03-X-180/MDOT 02-0033/Z5 (80% Fed Share)
		83,376	MI-90-X-411/MDOT 02-0033/Z8
		471,910	MI-90-X-412/MDOT 02-0033/Z14 80% (Fed Share)
		44,375	MI-70-X-001 (100% Fed Share)
		460,600	MI-90-X-434/MDOT 02-0033/Z16 Cops FTA (80% Fed Share)
		1,346,829	MI-90-X-464/MDOT 02-0033Z TRANSIT COPS (100% Fed Share)
		3,104,929	
41399	Other federal contracts and reimb.	299,500	SEMCOG FY 04 MI-80-X012 (80% Fed Share)
41400	Interest income	296,527	
	Total revenue	\$ 173,368,695	

See accompanying independent auditors' report.

CITY OF DETROIT
TRANSPORTATION FUND
Expense Schedule
Year ended June 30, 2005

Code	Description	Operations	Maintenance	General administration	Total	Comments
	Expenses:					
50101	Operators' salaries and wages	\$ 37,310,028	—	—	37,310,028	
50102	Other salaries and wages	5,025,663	22,242,740	3,448,901	30,717,304	
50200	Other fringe benefits	23,203,909	12,526,216	1,455,816	37,185,941	
50201	Pensions	9,803,971	5,365,027	976,929	16,145,927	
50302	Advertising fees	—	—	—	—	
50305	Audit cost	—	—	192,487	192,487	
50399	Other services	1,346,829	4,020,963	15,498,292	20,866,084	
50401	Fuel and lubricants	9,066,434	—	—	9,066,434	
50402	Tires and tubes	975,632	—	—	975,632	
50499	Other materials and supplies	—	7,844,237	—	8,474,038	
50500	Utilities	—	—	629,801	2,893,254	
50603	Liability insurance	—	—	2,893,254	2,893,254	
50700	Taxes and fees	—	—	14,285,617	14,285,617	
50800	Purchased transportation service	6,602,333	—	4,004	6,602,333	
50902	Travel, meetings and training	—	—	58,604	58,604	
50903	Association dues and subscriptions	—	—	60,998	60,998	
50999	Other miscellaneous expenses	—	28,163	162,010	190,173	
51200	Leases and rentals	—	226,875	270,751	497,626	
51300	Depreciation	—	—	16,919,222	16,919,222	
	Total expenses	93,334,799	52,254,221	56,856,686	202,445,706	
	Less ineligible expenses:					
55003	Other ineligible federal contracts	—	—	299,500	299,500	SEMCOG MI-80-X012 (80% Fed Share)
55004	Other ineligible state contracts	441,111	—	—	441,111	Municipal credits
55005	Ineligible local contracts	—	—	74,875	74,875	SEMCOG/MI-80-X012 (20% Local Share)
55007	Ineligible depreciation	—	—	—	—	
55009	Ineligible percent of association dues	—	—	9,600	9,600	MPTA & APTA Dues
55011	Ineligible preventive maintenance (FSL)	—	11,200,000	—	11,200,000	MI-90-X-434/MDOT 02-0033/Z16 (80/20 Fed/State Share)
		—	2,412,981	—	2,412,981	MI-90-X-464/02-0033/Z16 (100% Fed Share)
		—	13,612,981	—	13,612,981	
57603	Ineligible administrative expense paid by capital contract	—	—	38,984	38,984	MI-90-X-347/MDOT 01-0324 (80% Fed Share)
		—	—	80,588	80,588	MI-90-X-359/MDOT 01-0727 (80% Fed Share)
		—	—	150	150	MI-90-X-374/MDOT 02-297 (80% Fed Share)
		—	—	710,764	710,764	MI-90-X-383/MDOT 02-0033/Z6 80% (Federal Share)
		—	—	41,814	41,814	MI-03-X-180/MDOT 02-0033/Z5 80% Federal Share
		—	—	104,220	104,220	MI-90-X-411/MDOT 02-0033/Z8
		—	—	44,375	44,375	MI-70-X-001 (100% Fed Share)
		—	—	575,750	575,750	MI-90-X-434/MDOT 02-0033/Z16 Cops FTA 80 (Fed Share)
		—	—	1,346,828	1,346,828	MI-90-X-464/MDOT 02-0033Z TRANSIT COPS 100% (Fed Share)
		—	—	589,887	589,887	MI-90-X-412/MDOT 02-0033/Z14 80% (Fed Share)
	Total ineligible expenses	441,111	13,612,981	3,533,360	34,766,035	
	Total eligible expenses	\$ 92,893,688	38,641,240	36,144,743	167,679,671	

**CITY OF DETROIT
TRANSPORTATION FUND**

Schedule of Eligible Costs

Year ended June 30, 2005

(Unaudited)

	Gross expenses, July 1, 2004 through June 30, 2005	\$ 202,445,706	
	Less: July 1, 2004 through September 30, 2004	49,024,001	
	Add: July 1, 2005 through September 30, 2005	44,270,712	
	Gross expenses for 12 months ended September 30, 2005	<u>197,692,417</u>	
	Less ineligible expenses, 12 months ended September 30, 2005:		
55007	Ineligible depreciation	17,059,322	
55004	Other ineligible state CTF contracts	441,111	Municipal credits
55005	Ineligible local contracts	74,875	SEMCOG MI-80-X012 (20% Local Share)
55003	Other ineligible federal contracts	299,500	SEMCOG MI-80-X012 (80% Fed Share)
55011	Ineligible preventive maintenance (FSL)	11,200,000	MI-90-X-434/MDOT 02-0033/Z16 (80/20 Fed/State Share)
		<u>2,412,981</u>	MI-90-X-464/02-0033/Z16 (100% Fed Share)
		13,612,981	
57603	Ineligible admin. expense paid by capital contract	38,984	MI-90-X-347/MDOT 01-0324 (80% Fed Share)
		52,646	MI-90-X-359/MDOT 01-0727 (80% Fed Share)
		—	MI-90-X-374/MDOT 02-297 (80% Fed Share)
		790,081	MI-90-X-383/MDOT 02-0033/Z6 (80% Fed Share)
		41,814	MI-03-X-180/MDOT 02-0033/Z5 (80% Fed Share)
		131,324	MI-90-X-411/MDOT 02-0033/Z8
		27,821	MI-70-X-001 (100% Fed Share)
		575,750	MI-90-X-434/MDOT 02-0033/Z16 Cops FTA (80% Fed Share)
		1,346,828	MI-90-X-464/MDOT 02-0033Z TRANSIT COPS (100% Fed Share)
		<u>589,887</u>	MI-90-X-412/MDOT 02-0033/Z14 (80% Fed Share)
		3,595,135	
55009	Ineligible percent of association dues	9,600	MPTA and APTA dues
	Total ineligible expenses	<u>35,092,524</u>	
	Total eligible expenses	<u>\$ 162,599,893</u>	

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Schedule of Eligible Costs

Year ended June 30, 2005

	Twelve months ended June 30, 2005	Three months ended September 30, 2004	Nine months ended June 30, 2005	Three months ended September 30, 2005	Twelve months ended September 30, 2005
Gross expenses	\$ 202,445,706	49,024,002	153,421,704	44,270,712	197,692,416
Less ineligible expenses:					
55007 Ineligible depreciation	16,794,608	4,186,578	12,608,030	4,451,292	17,059,322
55004 Other ineligible state CTF contracts	441,111	117,630	323,481	117,630	441,111
55005 Ineligible local contracts	74,875	17,445	57,430	17,445	74,875
55003 Other ineligible federal contracts	299,500	74,875	224,625	74,875	299,500
55011 Ineligible preventive maintenance (FSL)	13,612,981	3,250,000	10,362,981	3,250,000	13,612,981
57603 Ineligible admin. expense paid by capital contract	3,533,360	44,646	3,488,714	106,421	3,595,135
55009 Ineligible percent of association dues	9,600	2,400	7,200	2,400	9,600
Total ineligible expenses	34,766,035	7,693,574	27,072,461	8,020,063	35,092,524
Net eligible costs	\$ 167,679,671	41,330,428	126,349,243	36,250,649	162,599,892

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

State and Federal Grant Revenues

Fiscal year ended June 30, 2005

	<u>Amount</u>	
State cash grants and reimbursements:		
41101 State operating assistance	\$ 54,342,717	
41110 Line-item municipal credit	882,222	
41111 Preventive maintenance (20% share)	2,240,000	MI-90-X-434/MDOT 02-0033/Z16 (20% State Share)
41113 Capital contract reimb. for admin. expenses	7,797	MI-90-X-347/MDOT 2001-0324 (20% State Share)
	16,118	MI-90-X-359/MDOT (20% State Share)
	30	MI-90-X-374/MDOT 02-297 (20% State Share)
	142,153	MI-90-X-383/MDOT 02-0033/Z6 (20% State Share)
	8,363	MI-03-X-0180/MDOT 02-0033/Z5 (20% State Share)
	20,844	MI-90-X-411/MDOT 02-0033/Z7 (20% State Share)
	117,977	MI-90-X-412/MDOT 02-0033/Z14 (20% State Share)
	<u>115,150</u>	MI-90-X-434/MDOT 02-0033Z16 TRANSIT COPS (20% State Share)
	428,432	
Total state contributions	<u>57,893,371</u>	
Federal cash grants and reimbursements:		
41311 Preventive maintenance (80% Fed Share)	8,960,000	MI-90-X-434/MDOT 02-0033/Z16 (80% Fed Share)
	2,412,981	MI-90-X-464/02-0033/Z16 (100% Fed Share)
	<u>11,372,981</u>	
41313 Capital contract reimb. for admin. expenses	31,187	MI-90-X-347/MDOT 01-0324 (80% Fed Share)
	64,470	MI-90-X-359/MDOT 01-0727 (80% Fed Share)
	120	MI-90-X-374/MDOT 02-297 (80% Fed Share)
	568,611	MI-90-X-383/MDOT 02-0033/Z6 (80% Federal Share)
	33,451	MI-03-X-180/MDOT 02-0033/Z5 (80% Fed Share)
	83,376	MI-90-X-411/MDOT 02-0033/Z8
	471,910	MI-90-X-412/MDOT 02-0033/Z14 (80% Fed Share)
	44,375	MI-70-X-001 (100% Fed Share)
	460,600	MI-90-X-434/MDOT 02-0033/Z16 Cops FTA (80% Fed Share)
	<u>1,346,828</u>	MI-90-X-464/MDOT 02-0033Z TRANSIT COPS (100% Fed Share)
	3,104,928	
41399 Other federal contracts and reimb.	<u>299,500</u>	SEMCOG FY 04 MI-80-X012 (80% Fed Share)
Total federal contributions	<u>14,777,409</u>	
Total state and fed contributions per financials	<u>\$ 72,670,780</u>	

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Operating Revenues

Year ended June 30, 2005

	Operating revenue	July 1, 2004 to September 30, 2004	October 1, 2004 to June 30, 2005	Total	Comments
40100	Passenger fares	\$ 5,895,925	15,923,028	21,818,953	
40615	Advertising	65,658	850,871	916,529	
40760	Gains from sale of capital assets	2,434	194,636	197,070	
40799	Other non-transport revenue	12,990	13,948	26,938	Miscellaneous revenue
	Total operating revenue	\$ 5,977,007	16,982,483	22,959,490	

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Nonoperating Revenues—Local

Year ended June 30, 2005

	July 1, 2004 to September 30, 2004	October 1, 2004 to June 30, 2005	Total	Comments
40910 Local operating assistance	\$ 16,380,000	60,987,022	77,367,022	
40999 Other local contracts and reimb.	—	74,875	74,875	SEMCOG/MI-80-X011 (20% Local Share)
41400 Interest income	—	74,875	74,875	
Total nonoperating revenues— local	—	296,527	296,527	
	\$ 16,380,000	61,358,424	77,738,424	

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Nonoperating Revenues—State and Federal

Year ended June 30, 2005

State of Michigan operating grants:			
41101	State operating assistance	\$ 54,342,717	
41110	Line-item municipal credit	882,222	
41111	Preventive maintenance (20% share)	2,240,000	MI-90-X-434/MDOT 02-0033/Z16 (20% State Share)
41113	Capital contract reimb. for admin. expenses	7,797	MI-90-X-347/MDOT 2001-0324 (20% State Share)
		16,118	MI-90-X-359/MDOT (20% State Share)
		30	MI-90-X-374/MDOT 02-297 (20% State Share)
		142,153	MI-90-X-383/MDOT 02-0033/Z6 (20% State Share)
		8,363	MI-03-X-180/MDOT 02-0033/Z5 (20% State Share)
		20,844	MI-90-X-411/MDOT 02-0033/Z7 (20% State Share)
		117,977	MI-90-X-412/MDOT 02-0033/Z14 (20% State Share)
		115,150	MI-90-X-434/MDOT 02-0033Z16 TRANSIT COPS (20% State Share)
		—	MI-90-X-464/MDOT 02-0033Z TRANSIT COPS (20% State Share)
		<u>428,432</u>	
41199	Other state contracts and reimbursements	—	DOJ COPS Grant 98ULWX0057 (20.5% State Share)
	Total state contributions	<u>57,893,371</u>	
Federal operating grants:			
41311	Preventive maintenance (80% Fed Share)	8,960,000	MI-90-X-434/MDOT 02-0033/Z16 (80% Fed Share)
		2,412,981	MI-90-X-464/02-0033/Z16 (100% Fed Share)
		<u>11,372,981</u>	
41313	Capital contract reimb. for admin. expenses	31,187	MI-90-X-347/MDOT 01-0324 (80% Fed Share)
		64,470	MI-90-X-359/MDOT 01-0727 (80% Fed Share)
		120	MI-90-X-374/MDOT 02-297 (80% Fed Share)
		568,611	MI-90-X-383/MDOT 02-0033/Z6 (80% Fed Share)
		33,451	MI-03-X-180/MDOT 02-0033/Z5 (80% Fed Share)
		83,376	MI-90-X-411/MDOT 02-0033/Z8
		471,910	MI-90-X-412/MDOT 02-0033/Z14 (80% Fed Share)
		44,375	MI-70-X-001 (100% Fed Share)
		460,600	MI-90-X-434/MDOT 02-0033/Z16 Cops FTA (80% Fed Share)
		1,346,828	MI-90-X-464/MDOT 02-0033Z TRANSIT COPS (100% Fed Share)
		<u>3,104,928</u>	
41399	Other federal contracts and reimb.	299,500	SEMCOG FY 04 MI-80-X012 (80% Fed Share)
		—	DOJ COPS GRANT 98ULWX0057 (75% Fed Share)
		—	MI-40-X001 (100% Fed Share)
		<u>299,500</u>	
	Total federal contributions	<u>14,777,409</u>	
	Total federal and state contributions	<u>\$ 72,670,780</u>	

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Municipal Credits
Year ended June 30, 2005

State of Michigan municipal credits

\$ 882,222

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**
Federal Planning Grant Revenue
Year ended June 30, 2005

Federal Planning Grant revenue:
SEMCOG/MI-80-X012

\$ 299,500

Total

\$ 299,500

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Schedule of Expenses by Contract and General Obligations

Individual Project Grants Reflected on Expense Schedule

Year ended June 30, 2005

	<u>Specialized services</u>	<u>New services Emp/Crac</u>	<u>Job access</u>	<u>MDOT 2004-0049 MDOT 2003-0536</u>	<u>MDOT 2002-033/Z4</u>	<u>Total</u>
Purchased services \$	275,942	1,075,103	1,366,507	410,212	98,253	3,226,017

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Eligible Cost Report

Year ended June 30, 2005

	Federal		State		
	July 1, 2004 to September 30, 2004	October 1, 2004 to June 30, 2005	July 1, 2004 to September 30, 2004	October 1, 2004 to June 30, 2005	Total
Expenses:					
Labor					
Fringe benefits					
Services					
Materials and supplies					
Utilities					
Casualty and liability costs					
Taxes					
Purchased transportation services					
Miscellaneous					
Charter expense					
Leases and rentals					
Depreciation					
Total expenses	\$ 49,024,002	153,421,704			202,445,706
Less ineligible expenses:					
Other ineligible federal contracts	74,875	224,625			299,500
Other ineligible state CTF contracts	117,630	323,481			441,111
Ineligible local contracts	17,445	57,430			74,875
	—	—			—
	17,445	57,430			74,875
	4,186,578	12,608,030			16,794,608
	2,400	7,200			9,600
	3,250,000	10,362,981			13,612,981
	—	38,984			38,984
	27,942	52,646			80,588
	150	—			150
	—	710,764			710,764
	—	41,814			41,814
	16,554	87,666			104,220
	—	44,375			44,375
	—	575,750			575,750
	—	1,346,828			1,346,828
	44,646	545,241			589,887
	89,292	3,444,068			3,533,360
	7,738,220	27,027,815			34,766,035
	\$ 41,285,782	126,393,889			167,679,671
Total ineligible expenses					
Net eligible costs					

SEMCOG/MI-80-X011
Municipal credits
SEMCOG/MI-80-X011
MI-90-X-341/MDOT 02-0033-Z3 (20% City Share)

MPTA and APTA dues
Federal and state (80/20)

MI-90-X-347/MDOT 01-0324 (80% Fed Share)
MI-90-X-359/MDOT 01-0727 (80% Fed Share)
MI-90-X-374/MDOT 02-297 (80% Fed Share)
MI-90-X-383/MDOT 02-0033/Z6 (80% Fed Share)
MI-03-X-180/MDOT 02-0033/Z5 (80% Fed Share)
MI-90-X-411/MDOT 02-0033/Z8
MI-70-X-001 (100% Fed Share)
MI-90-X-434/MDOT 02-0033/Z16 Cops FTA (80% Fed Share)
MI-90-X-464/MDOT 02-0033Z TRANSIT COPS (100% Fed Share)
MI-90-X-412/MDOT 02-0033/Z14 (80% Fed Share)

See accompanying independent auditors' report.

**CITY OF DETROIT
TRANSPORTATION FUND**

Non-Financial Operating Data

Year ended June 30, 2005

(Unaudited)

<u>Object class</u>					
601	Number of routes (line-haul only)	45			
602	Number of route miles (line-haul only)	1,291			
			<u>Weekdays (01)</u>	<u>Saturdays (02)</u>	<u>Sundays (03)</u>
					<u>Total (04)</u>
	Public service:				
610	Vehicle hours	1,262,250	178,256	118,842	1,559,348
611	Vehicle miles	17,252,535	2,490,436	1,660,656	21,403,627
615	Passengers—regular	24,224,798	2,169,837	1,096,509	27,491,144
616	Passengers—senior	2,758,787	256,803	117,472	3,133,062
617	Passengers—handicapper	4,165,685	405,124	201,915	4,772,724
620	Total passengers	31,149,270	2,831,764	1,415,896	35,396,930
621	Total line-haul passengers	31,149,270	2,831,764	1,415,896	35,396,930
625	Days operated	255	52	58	365
	Passengers per day	122,154	54,457	24,412	96,978
	Other service:				
630	Charter service hours	N/A			
631	Charter service miles	N/A			
632	School bus service hours	N/A			
633	School bus service miles	N/A			
634	Other service hours (greyline)	N/A			
635	Other service miles (greyline)	N/A			
	Vehicle information:				
653	Total line-haul vehicles	534			
654	Line-haul vehicles with lifts	534			
655	Total demand-response vehicles	61			
656	Demand-response vehicles w/lifts	61			
657	Total times line-haul lifts used	8,911			
658	Total transit vehicles	595			
	Miscellaneous:				
659	Compressed natural gas (gallons)				
660	Fuel—gallons consumed	4,933,659**			
661	Total transit system employees (full-time equivalents)	1,575			
662	Number of vehicle operators (full-time equivalents)	1,052			
663	Number of accidents	771			
664	Number of road calls (i.e., vehicle breakdowns)	13,400			
	Service area:				
701	Urban = 1	1			
	Non-urban = 2				

** Fuel usage

See accompanying independent auditors' report.